

Midtown Management District

Financial Statements and
Required Supplementary Information

December 31, 2013



LIMITED LIABILITY COMPANY

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Midtown Management District
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Midtown Management District
Houston, Texas

We have audited the accompanying financial statements of the governmental activities and major fund of the Midtown Management District (the District) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Midtown Management District, as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Caru, Riggs & Ingram, L.L.C.

Houston, Texas
April 2, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This discussion and analysis of Midtown Management District's (the District) financial statements provides an overview of the District's financial performance during the year ended December 31, 2013. This discussion and analysis includes comparative data for the year ended December 31, 2012 and a brief explanation for significant changes between fiscal periods. Since the Management's Discussion and Analysis is designed to focus on current activities, resulting changes and current known facts, please read in conjunction with the District's basic financial statements and the footnotes.

FINANCIAL HIGHLIGHTS

General

- The assessment rate for the tax year 2012 remained at \$0.1181 per \$100 valuation of properties located in the District. Total assessment revenue for the year ended December 31, 2013 was budgeted at \$1,442,000. Throughout the course of the year as the certified tax rolls were calculated, the final assessed levy for tax year 2012 (fiscal year 2013) was \$1,453,386. The District received current year assessments totaling approximately \$1,433,000 at a collection rate of 99%.
- In November 2013, the District's Board of Directors recommended no change in the rate of assessment for year nine of the District's ten year service plan.
- Parks and green space will continue to be a priority as the Midtown Redevelopment Authority (the Authority) continues the design and renovations for Glover, Baldwin, Midtown and Super Block parks. The Authority substantially completed Elizabeth Glover Park in 2013 and Baldwin Park was renovated for a second time in order to meet the needs of a growing constituency. Both of the parks are City of Houston parks and were completed with their cooperation. The improvements to Midtown Park began in April 2013 and should be completed in 2014. The upgraded amenities will better serve the residents and businesses in the area. The District will be the responsible party for maintaining each of the parks following the Authority's completion of the improvements.
- In June 2013, the Board of Directors approved the new Midtown Mission Statement developed by the Marketing Committee with stakeholder, Board and other committee input: *"Midtown strives to provide an economically vibrant urban destination where arts and culture thrive alongside businesses and residents in a safe, active, diverse neighborhood"*. The new mission statement which will be used on the upcoming Service and Improvement Plan document will be incorporated into Midtown media.

Public Safety Committee

- The District is committed to providing a safe and secure environment within the jurisdictional boundaries of Midtown. In an effort to enhance public safety, the District contracts with Harris County for Deputy Constables to provide patrol services at an annual cost of approximately \$450,000. The term of the 2012 Interlocal Agreement for Law Enforcement Services was extended through February 28, 2014 to allow Harris County to align the term of its law enforcement services agreements. The Agreement is substantially in the same form as the 2012 Agreement with Harris County and the same monthly payment.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(Unaudited)

FINANCIAL HIGHLIGHTS (CONTINUED)

Public Safety Committee (Continued)

- The District also funds the delta cost of electricity for the coach lights installed in Midtown. As the Authority installs more lights the delta payment requirement for the District is increasing. The calendar year 2013 delta payment for electricity in the District was \$205,229 and was paid in March 2014.
- The Public Safety Committee, Midtown residents, staff and Board members participated in various events, panels, and public hearings related to public safety topics impacting the District.

Services and Maintenance Committee

- The District continued the Midtown Field Services Program. This program provides services and maintenance for public rights of way and parkland located in Midtown. These services include landscaping, mowing, weed eating, edging, mulching, irrigation system maintenance and repair, street sweeping, tree pruning and seasonal planting. Additionally the program provides Midtown logo street sign replacement, debris removal, new tree planting and other general maintenance of the public rights of way. Since implementing the Field Services Program, the District has been able to eliminate its vendor contracts for street sweeping, tree pruning, and fertilization and assigned these duties to the Field Services Team. Having this team allows the District to fulfill standing Interlocal Agreements with the Authority to provide maintenance for improvements. The Midtown Field Service Team also assists the Midtown staff when called upon to do so at community events by providing additional support services in the way of event set up, break down and clean up. Total costs for this project during 2013 were approximately \$178,000.
- As part of the District's Interlocal Agreements with the Authority the District provides regular complete maintenance of Baldwin Park and Elgin Street pedestrian enhancements. Due to Baldwin Park being under renovation from April through October 2013, the cost to maintain the park for the year is considerably lower than 2012. The cost to maintain Baldwin Park during the year ended December 31, 2013 was approximately \$9,400.
- The District has a contract with the East End Management District for the Midtown Graffiti Abatement Program. Abatement services are provided on a bi-monthly basis. The program which is well received by the community has enhanced the District's core mission to provide a clean safe environment for its stakeholders. Residents have been asked to assist the Graffiti Abatement Program by identifying areas in the public right of way that need abatement. In 2013, a total of 253 sites in the public right of way were abated at a cost of \$4,480.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(Unaudited)

FINANCIAL HIGHLIGHTS (CONTINUED)

Services and Maintenance Committee (Continued)

- In the 4th quarter of 2013, the District authorized the provision of landscape maintenance services along certain portions of the METRORail Line. The District will be reimbursed the actual cost plus a small administrative fee to provide the service to METRO beginning in fiscal year 2014.

Marketing and Perception Enhancement Committee

- In October 2013 the District's Board of Directors approved a Resolution authorizing the filing of an application under the federal trademark registration for continued use and renewal of the Midtown Logo.
- The Midtown Paper has a circulation of 15,000 and is published quarterly by Quantum/SUR. The paper is distributed by mail to Midtown property owners. The Midtown Staff continues to work to expand a secondary list of business owners and managers, City and County elected officials, and those who express general interest who also receive the Midtown Paper. The Midtown Paper is made available to the general public at 65 newspaper rack distribution sites and approximately 15 paper only sites in the Midtown area. The cost to publish the newspaper for the year ended December 31, 2013 was approximately \$64,000.
- The printed Midtown Map which is an insert to the Midtown Paper highlights various locations within the District and continues to be an excellent cost effective marketing tool for the community and business owners alike. Business owners may purchase a map button or an affordably priced ad spot on a quarterly basis.
- The District continues to utilize Social Media to maintain contact with the community demographic. Key social media components include Face Book, YouTube, Twitter, Flickr, Pintrest, the Midtown Rocks Blog and RSS feeds.
- In the second quarter of 2013 the staff began working with a consultant to develop a new non-proprietary Midtown website using WordPress. Among other new features the new site includes a slide deck housing photos of Midtown, a new projects section and a tab for Cultural Arts & Entertainment District.
- During the course of the year a new non-proprietary template for the eNews was secured. In August 2013 Constant Contact was secured as the new outlet to develop and distribute the weekly Midtown eNews. The Midtown eNews remains the most efficient form of advertising for area businesses in Midtown. At the end of fiscal year 2013 there were approximately 1,950 registered members receiving the weekly Midtown eNews. This weekly Internet publication provides valuable information regarding future meetings and events in Midtown.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(Unaudited)

FINANCIAL HIGHLIGHTS (CONTINUED)

Cultural Arts & Entertainment District Committee

- The District hosted its 7th Midtown Art in the Park in April 2013 on the SuperBlock. Approximately eighty - five (85) artists were represented at the annual event. The event featured the installation of the largest full scale outdoor mural in the history of Houston. The Midtown "Love you" mural was designed and commissioned to honor the Cultural Arts & Entertainment District designation received in the 4th quarter of 2012. Total costs for this event was approximately \$33,000.
- The Board of Directors commissioned The Midtown Mural Project, a 5,000 square foot mural on the back of the building located at 2905 Travis owned by the Authority. The mural is an artistic conception of the Midtown logo. The artists of Eyeful Art Murals and Designs who are Midtown stakeholders completed the project during the week of Art in the Park.
- In May 2013 the first Midtown Truckin' Thursday was hosted on the SuperBlock near the Midtown Mural. The project involves securing gourmet food trucks to sell food for 3 hours during lunch. The goal of the project is to begin to inform stakeholders one on one about the plans for park space on the site as well as other activities of the Midtown Board. The committee saw a consistent increase in patrons from month to month. The Board of Directors approved funding for subsequent Truckin' Thursday events in June, September, October, November and December of 2013. The entire 6-month program came in at an approximate cost of \$6,258 or \$1,000 per event.

Urban Planning Committee

- The Urban Planning Committee continues to work toward encouraging developers to include pedestrian enhancements on their projects that are in keeping with the urban nature of the Midtown community they serve.
- In October 2013, the District installed new playground equipment for older children at Baldwin Park. The District's Board of Director's approved a budget of \$80,000 for the equipment in 2012. The equipment is property of the City of Houston.

Event Coordination and Participation

- During the period from January 1, 2013 to December 31, 2013, the District coordinated and participated in the following events:
 - 7th Annual Midtown Art in the Park, April 2013;
 - 14th Annual Midtown VISIONS Cultural Arts Tour, in April 2013;
 - Truckin' Thursday Gourmet Food Truck Events - May, June, September, October and November 2013
 - August 2013 District Annual meeting.
 - Midtown Business Mixer at Proof Bar; September 2013
 - Midtown Business Mixer at The Good Life; October 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(Unaudited)

FINANCIAL HIGHLIGHTS (CONTINUED)

Event Coordination and Participation (Continued)

- Midtown Business Mixer at BlackFinn; November 2013
- Special Holiday Edition of Truckin' Thursday Gourmet Food Truck Event, December 2013
- Spot the Santa in Midtown, December 2013

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. Under Governmental Accounting Standards Board, the District qualifies as a special purpose government with one program – revitalization of the Midtown area.

Government-wide statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business. The Statement of Net Position includes all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between them presented as net position. Over time, increases or decreases in the District's net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are accounted for in this statement, regardless of when cash is received or paid.

The fund financial statements report information about the District on the modified accrual basis, which only accounts for revenues that are measurable and available within the current period or soon enough thereafter to pay liabilities of the current period. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. The District has one governmental fund.

Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with the similar information presented for governmental activities in the government-wide financial statements. Adjustments are provided to reconcile the government-wide statements to the fund statements. Explanations for the reconciling items are provided as part of the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Position

The Statement of Net Position includes all assets, liabilities and deferred inflows of resources using the accrual basis of accounting. The following table reflects condensed information (rounded to the nearest thousand) on the District's net position:

<i>December 31,</i>	2013	2012
Current assets		
Cash and cash equivalents	\$ 914,000	\$ 1,022,000
Assessment receivables	1,288,000	1,205,000
Prepaid expenses	37,000	37,000
Investments	435,000	434,000
Total current assets	2,674,000	2,698,000
Current liabilities	337,000	353,000
Deferred inflows of resources	1,588,000	1,485,000
Net position - unrestricted	\$ 749,000	\$ 860,000

Cash equivalents and investments were held in money market accounts, certificates of deposit, and TexStar, a local government investment pool, throughout the year.

Current liabilities include a payable to the City of Houston (the City) for electricity costs for the period January through December. The City bills the District on its calendar year basis for the delta electric cost of the decorative street lights located within the District. Street lights are installed by the Authority on an on-going basis.

Deferred inflows of resources relate to 2014 and 2013 assessments as of December 31, 2013 and 2012, respectively. Taxes levied on October 1 of calendar year 2012 and 2013 are recorded as accounts receivable and deferred revenue at date of the levy. All amounts are deferred until the following fiscal year.

Net position of the District's governmental activities decreased by approximately \$111,000. This decrease was primarily a result of net assessment revenue being under budget (approximately \$45,000) and the District budgeting prior year committed resources to fund current year expenditures (approximately \$80,000 for urban planning).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Statement of Activities

The Statement of Activities presents the operating results of the District. The following table reflects condensed information (rounded to the nearest thousand) on the District's operations.

<i>Year ended December 31,</i>	2013	2012
Revenues		
Assessments, net	\$ 1,486,000	\$ 1,412,000
Interest and other revenues	4,000	6,000
Total revenues	1,490,000	1,418,000
Expenses		
Security and public safety	655,000	602,000
Marketing and perception enhancement	117,000	113,000
Urban planning	80,000	10,000
Service and maintenance	318,000	352,000
District administration	431,000	367,000
Total expenses	1,601,000	1,444,000
Change in net position	(111,000)	(26,000)
Net position - beginning of year	860,000	886,000
Net position - end of year	\$ 749,000	\$ 860,000

Assessment revenues received by the District are used to fund the District's approved service plan. Assessment revenue includes the following:

<i>Year ended December 31,</i>	2013	2012
Assessments collected	\$ 1,447,000	\$ 1,380,000
Delinquent collections, net of overpayments	23,000	14,000
Penalties and interest	16,000	18,000
Net assessments	\$ 1,486,000	\$ 1,412,000

The District's collection rate for each of the years ended December 31, 2013 and 2012 was 99%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Statement of Activities (Continued)

The District's ten year service plan, categorizes expenses into four committee areas and administration. Security and Public Safety expenses primarily include electricity costs for streetlights and payments under agreements for constables. Service and Maintenance expenses primarily include landscaping maintenance of all public assets including two parks and public rights of way in Midtown. Marketing and Perception Enhancement expenses include costs associated with producing the quarterly Midtown Paper, stakeholder reports and community based event participation. Urban Planning includes expenses related to neighborhood clean-ups. Personnel costs and other consultant costs are included in administration expenses.

Governmental Fund

At the end of the current fiscal period, the District's governmental fund reported an ending fund balance of approximately \$717,000. Approximately \$655,000, of this total amount has been committed by the District's Board of Directors for future electricity payments for the enhanced street lights (\$230,000), a replacement reserve (\$325,000), and an emergency reserve (\$100,000). The remainder of the fund balance, approximately \$62,000, is available for spending at the District's discretion provided expenditures are allowable by the District's service and assessment plan.

Capital Assets and Long-Term Debt

As of December 31, 2013 and 2012, the District had no capital assets or long-term debt.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's Board of Directors approves the annual budget of the District. The District's budget was not amended during 2013.

FUTURE PROJECTS

The Ten Year Service and Improvement Plan extends the District through the tax year 2014. The Board is already looking ahead for ways to bring awareness to the good work that has taken place in the community and how this can be presented at the 2015 Public Hearing. The District is planning to maintain its current level of assessment for the year 2014 of \$0.1181 per \$100 valuation of properties located in the District.

Planning for the 2015 renewal of the District's Service and Improvement Plan and Assessment Plan, the Board and Committees are committed to hosting additional meetings and focus groups for each committee in order to secure stakeholder input into what Midtown should become in the next 10 years.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(Unaudited)

FUTURE PROJECTS (CONTINUED)

Security and Public Safety

As ratified by the District's Board of Directors in December 2013, Harris County Constables will continue to provide deputy constables to patrol the community. The Agreement is for the services of 6 Deputy Constables, one of whom is a supervising sergeant and extends through February 2015.

The outcome of the Streetlight Outage Survey pilot program was positive and the District has signed a contract to keep the program going in 2014. In addition, the committee and Board agreed to begin the Public Safety Light Program in 2014.

Service and Maintenance

The Service and Maintenance Committee will continue to provide programs for the District that offer a leveraged use of District dollars, where possible, to improve the overall maintenance of the community thus enhancing the outward appearance of Midtown as a clean, safe place to live. The committee will also continue the Midtown Field Service Program which provides maintenance and upkeep of the public right of way and park spaces in Midtown.

Marketing and Perception

The Midtown Paper will continue as a Midtown Publication with a circulation of 15,000 papers. Midtown Maps will be published twice a year for insertion in each quarterly issue. The District will continue to produce the weekly Midtown eNews for distribution via e-mail to members who have signed up.

The committee is planning a series of four Business Development Roundtable programs to target Midtown business owners. Topics will include; Midtown Marketing 101, Marketing for Restaurants & Retail among others.

Urban Planning

The Urban Planning Committee will work to help implement programs to improve the quality of life in Midtown. They will continue to work with developers to encourage pedestrian access within the District, and encourage enhancements that are consistent with the urban character of the District. The Urban Planning Committee will work to seek new community based events that reflect the community's urban character.

* * * * *

This financial report is designed to provide a general overview of the Midtown Management District's finances for all those with an interest in the government's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Mathias Thibodeaux, Executive Director, 410 Pierce Street, Suite 355, Houston, Texas 77002.

Midtown Management District

Governmental Fund Balance Sheet and
Statement of Net Position

December 31, 2013

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 913,793	\$ -	\$ 913,793
Assessment receivables	1,288,416	-	1,288,416
Prepaid expenses	37,334	-	37,334
Investments	435,216	-	435,216
Total assets	\$ 2,674,759	\$ -	\$ 2,674,759
Liabilities			
Accounts payable	\$ 131,750	\$ -	\$ 131,750
Accrued liabilities	205,229	-	205,229
Total liabilities	336,979	-	336,979
Deferred inflows of resources			
Deferred revenue	1,620,899	(32,474)	1,588,425
Fund balances			
Committed	655,000	(655,000)	-
Unassigned	61,881	(61,881)	-
Total fund balances	716,881	(716,881)	-
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,674,759	-	-
Commitments and contingencies			
Net position - unrestricted		\$ 749,355	\$ 749,355
Total fund balance of governmental fund			\$ 716,881
Amounts reported for governmental activities in the statement of net position are different because:			
Deferred revenue is not available for current period expenditures and therefore deferred in the general fund			32,474
Net position of governmental activities			\$ 749,355

See accompanying notes to basic financial statements.

Midtown Management District

Governmental Fund Revenues, Expenditures and
Changes in Fund Balance and Statement of Activities

Year ended December 31, 2013

	General Fund	Adjustments	Statement of Activities
Revenues			
Assessments, net	\$ 1,478,306	\$ 7,381	\$ 1,485,687
Interest and other revenues	4,387	-	4,387
Total revenues	1,482,693	7,381	1,490,074
Expenditures/expenses			
Security and public safety	654,778	-	654,778
Marketing and perception enhancement	117,437	-	117,437
Urban planning	80,000	-	80,000
Service and maintenance	317,849	-	317,849
District administration	430,944	-	430,944
Total expenditures/expenses	1,601,008	-	1,601,008
Excess of expenditures over revenues	(118,315)	118,315	-
Change in net position	-	(110,934)	(110,934)
Fund balance/net position			
Beginning of year	835,196	25,093	860,289
End of year	\$ 716,881	\$ 32,474	\$ 749,355
Net change in fund balance of general fund			\$ (118,315)
Amounts reported for governmental activities in the statement of activities are different because:			
Assessment revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the general fund			7,381
Change in net position of governmental activities			\$ (110,934)

See accompanying notes to basic financial statements.

NOTE 1 – DESCRIPTION OF ORGANIZATION

Midtown Management District (the District), a municipal management district over the City of Houston's Midtown Area, was created by the State of Texas on May 26, 1999, as a body of politic and corporate, and a governmental agency of the State of Texas. A 17 member Board of Directors governs the District.

The District's five main areas of operation include security and public safety; marketing and perception enhancement; urban planning; services and maintenance; and District administration. All programs are under a ten-year service plan for the Midtown Area revitalization. Security and public safety consists of providing patrols by various law enforcement agencies and street lighting. Marketing and perception enhancements include a marketing plan to attract people back to the Midtown Area, by developing a positive image and community relations program. Urban planning includes enhancing the midtown Area's image and amenities by developing an overall master plan for parks, landscaping, maintenance and signage. Service and maintenance includes maintaining Midtown parks and all public assets. District administration includes the successful creation of the District and implementation of the service plan.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the reporting government as a whole. These statements are prepared on the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flow. Annual assessments are recognized as revenues in the year for which they are levied. Expenses are recorded when liabilities are incurred.

Government-wide statements distinguish between governmental-type and business-type activities. Governmental activities are those financed through taxes, intergovernmental revenues, and other non-exchange revenues and are usually reported in governmental and internal service funds. Business activities are financed in whole or in part through fees charged for goods or services to the general public and are usually reported in proprietary funds. The District does not have any business-type activities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (Continued)

Fund Financial Statements

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus and have been prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction that can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenue available if it is collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred as under accrual accounting.

Fund Accounting

The District uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives.

The District uses a General Fund (a Governmental Fund Type) to account for an annual assessment of \$0.1181 per \$100 valuation of taxable real property according to the tax rolls of the Harris County Appraisal district (Appraisal District). These funds are to be used to implement the District’s service plan.

This assessment is to be used for services to create a safe environment in both perception and reality, enhance the image, improve infrastructure and amenities, attract additional business and investments, and improve business opportunities within the District.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District did not have any nonspendable resources as of December 31, 2013.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Classification (Continued)

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District did not have any restricted resources as of December 31, 2013.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to the District's Executive Director through the budgetary process. The District did not have any assigned resources as of December 31, 2013.

Unassigned – This classification includes the residual fund balance for the General Fund in excess of amounts that are nonspendable or that are restricted, committed, or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in the General Fund, it is the District's policy to use unassigned resources first, then assigned, and then committed as needed.

Deferred Inflows of Resources

Effective with the fiscal year ended December 31, 2013, the District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities.

The District's collection or billing of the subsequent year's assessment represents a acquisition of net position or fund balance that applies to a future period and thus, will not be recognized as an inflow of resources (revenue) until that time.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget and Budgetary Accounting

The District's Board of Directors adopts an annual budget for the General Fund. The budget is based on projected assessment revenues and may be amended during the year, as determined necessary, by the Board of Directors. Additionally, after adoption, increases and decreases in the budget may be made only upon the Board of Directors' approval. A review of revenues and expenditures compared to budget is conducted on a monthly basis with the Board of Directors.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents include all cash on hand, demand and time deposits held in banks, and certificates of deposit with maturities of three months or less at date of purchase.

Investments consist of funds maintained by a trustee in a public funds investment pool that are based on quoted market prices and certificates of deposits with maturities greater than three months at date of purchase.

Federal Income Tax

The District is exempt from Federal income taxes under section 115 of the Internal Revenue Code.

Use of Estimates

The preparation of the District's basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect the amounts reported in these basic financial statements and accompanying notes. Actual results could differ from those estimates. Estimates that have the most impact on financial position and results of operations primarily relate to the collectability of assessment receivables and certain accrued liabilities. The District's management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

NOTE 3 – AUTHORIZED INVESTMENTS

The Board of Directors of the District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act (sec. 2256 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) certificates of deposit, and (3) TexStar, an investment pool; and (4) various other items provided that it complies with the Public Funds Investment Act.

Notes To Basic Financial Statements

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk for deposits with financial institutions is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires pledging of collateral for all bank balances in excess of Federal Deposit Insurance Corporation (FDIC) limits. At December 31, 2013, the carrying amount of the District's deposits totaled \$461,482 and the bank balances totaled \$534,358. The District's funds were fully collateralized.

Cash and cash equivalents at December 31, 2013 consist of the following:

Bank deposits:		
Demand deposits		\$ 461,482
Cash and cash equivalents:		
Money market funds		76,687
Certificates of deposits		375,624
		\$ 913,793
		\$ 913,793

Investments

As of December 31, 2013, the District has the following investments and maturities:

Fund and investment type	Fair Value	Maturities in years			
		Less Than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 429,689	\$ 429,689	\$ -	\$ -	\$ -
TexStar	5,527	5,527	-	-	-
Total investments	\$ 435,216	\$ 435,216	\$ -	\$ -	\$ -

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the District limits its exposure to interest risk by structuring its portfolio to provide for liquidity of operating funds by maximizing yields for funds not immediately needed. The investment policy limits the maximum maturity of operating funds and assessment revenue funds to three (3) years.

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The District places no limit on the amount the District may invest in any one authorized investment instrument.

Notes To Basic Financial Statements

NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments that are obligations of or guaranteed by the U.S. Government do not require disclosure of credit quality. The District’s investment in TexSTAR, a local government investment pool created under the Interlocal Cooperation Act, is rated AAA by Standard and Poor’s and maintains a weighted average maturity of 60 days or less, with a maximum weighted average maturity of 13 months for any individual security. The fair value of TexSTAR is based on quoted market values of the underlying investments of the pool and/or fund.

NOTE 5 – ACCRUED LIABILITIES

The City of Houston is responsible for the standard electricity costs for the street lights in the District. The Midtown Redevelopment Authority (the Authority) has and is installing enhanced street lights in the District for which the District has agreed to pay the delta electricity cost differential. The current estimated delta electricity cost per year will be approximately \$296 per street light. As of December 31, 2013, approximately 690 street lights have been installed by the Authority and approximately \$205,000 has been accrued for related electricity costs owed to the City of Houston.

NOTE 6 – FUND BALANCES – GOVERNMENTAL FUND

As of December 31, 2013, the fund balance of the District’s general fund is classified as follows:

Committed to:	
Electricity costs related to	
enhanced street lights	\$ 230,000
Replacement reserve	325,000
Emergency reserve	100,000
Unassigned	61,881
<hr/>	
Total fund balance	<u><u>\$ 716,881</u></u>

NOTE 7 – ANNUAL ASSESSMENT

The District adopted a ten-year assessment plan and levies the assessment each year in October. The assessment was levied at the rate of \$0.1181 per \$100 valuation of taxable real property for tax year 2012, based upon the values approved by the Harris County Appraisal District’s Appraisal Review Board. The assessments are levied in accordance with the due dates and delinquent dates for penalty and interest rates as provided in the Texas Tax Code.

Notes To Basic Financial Statements

NOTE 7 – ANNUAL ASSESSMENT (CONTINUED)

The rate is determined annually by the District's Board of Directors provided however, that the assessment rate may not increase greater than 105% of the previous year. Beginning with the second year, the total dollar assessment is capped at 110% of the assessment for the previous year. This cap does not apply to new improvements or to rehabilitation of existing improvements that increase the value of the improvements by 125% or greater. The District contracts with Equi-Tax, Inc. for assessment collection services.

For the 2013 tax year, the District levied an ad valorem assessment of \$0.1181 per \$100 of assessed valuation, resulting in an assessment of \$1,588,425 on the assessed valuation of \$1,344,983,233. As of December 31, 2013, \$336,922 of the 2013 assessment was collected. Revenue recognized for the 2013 assessment has been fully deferred to 2014.

Key dates in the property tax cycle are as follows:

Levy Date	- October 1, or as soon thereafter as practicable
Lien Date	- January 1
Due Date	- Not later than January 31
Delinquent Date	- February 1, at which time the taxpayer is liable for penalty and interest

NOTE 8 – RELATED PARTY TRANSACTIONS

The District has an administrative contract with the Authority whereby the Authority, provides administrative and management services to the District. The District and the Authority share the same executive director. The Authority provided services to the District amounting to approximately \$320,000 for the year ended December 31, 2013. At December 31, 2013, approximately \$85,000 was payable to the Authority under this contract.

NOTE 9 – COMMITMENTS

The District's annual contract with the Harris County Constables for patrol services expired in March 2014 and was renewed through March 2015. The monthly cost of this service is approximately \$37,000.

The Authority has entered into agreements with various consultants to provide professional services.

Required Supplementary Information

Midtown Management District
 Budgetary Comparison Schedule – General Fund

Year ended December 31, 2013

	Original and Final Budgeted Amounts	Actual Amounts (Budgetary Basis)	Variance With Final Budget
Revenues			
Assessments, net	\$ 1,522,563	\$ 1,478,306	\$ (44,257)
Interest and other revenues	93,120	4,387	(88,733)
Total revenues	1,615,683	1,482,693	(132,990)
Expenditures			
Security and public safety	656,470	654,778	1,692
Marketing and perception enhancement	126,520	117,437	9,083
Urban planning	86,000	80,000	6,000
Service and Maintenance	312,994	317,849	(4,855)
District administration	450,569	430,944	19,625
Total expenditures	1,632,553	1,601,008	31,545
Change in fund balance	(16,870)	(118,315)	(101,445)
Fund balance - beginning of year	888,979	835,196	(53,783)
Fund balance - end of year	\$ 872,109	\$ 716,881	\$ (155,228)

See independent auditor's report.